DEVLAN EXPLORATION INC.

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ANNUAL REPORT 2003

DEVLAN**EXPLORATION**INC.

Devlan Exploration Inc. is an aggressive junior oil and gas exploration and production company, dedicated to building shareholder value through the pursuit of high quality exploration and development opportunities.

Our Calgary-based company has a proven track record of progressive growth through exploration and asset enhancement.

Our strategy mirrors a pyramid with strong core properties at the base providing a solid foundation for growth. From this base we focus upward drawing on internal expertise in many disciplines to identify additional opportunities within and adjacent to these core areas. Finally, maintaining a large undeveloped land base ensures an inventory of drillable locations to facilitate further expansion.

This structure allows us the flexibility to manage our growth from within and generates the financial capability to participate in additional opportunities thus ensuring that Devlan maintains long-term performance.

Devlan's common shares are listed on The Toronto Stock Exchange under the trading symbol DXI.

ANNUAL MEETING

The Annual General and Special Meeting of the Corporation will be held on Friday, May 7th, 2004 at 3:00 PM in the Viking Room at the Calgary Petroleum Club at 319 – 5th Avenue SW, Calgary, Alberta.

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SUMMARY**HIGHLIGHTS**

Years ended December 31,	2003	2002	2001	2000	1999
FINANCIAL (000's except per share data)					
Net earnings (loss)	4,486	777	5,477	1,760	(381)
Per share ($) – Basic	0.20	0.04	0.39	0.18	(0.06)
Per share ($) – Diluted	0.20	0.04	0.31	0.12	(0.06)
Cash flow from operations	17,404	7,994	10,629	6,414	1,478
Per share ($) – Basic	0.79	0.44	0.75	0.65	0.25
Per share ($) – Diluted	0.78	0.43	0.59	0.45	0.13
Corporate debt					
Bank debt and capital leases (total)	14,474	14,968	5,394	6,944	7,646
Working capital deficiency (surplus)	5,911	2,097	898	(5,528)	(109)
Net debt	20,385	17,065	6,292	4,136	7,537
Debt to equity	0.4	0.5	0.3	0.8	1.2
Debt to cash flow	0.8	1.9	0.5	1.5	5.2
Net debt to cash flow	1.2	2.1	0.6	0.6	5.1
Interest coverage (using cash flow)	22.8	11.2	16.8	9.9	3.0
SHARE CAPITAL					
Common shares outstanding	23,187,861	21,351,461	16,724,266	11,798,865	9,865,527
Weighted average shares outstanding	21,898,709	18,052,650	14,193,483	9,907,789	6,000,222
Fully diluted shares	25,544,940	23,382,865	18,170,670	15,195,129	11,146,471
Price range ($ per share)					
High	2.95	2.49	3.50	2.40	1.45
Low	1.44	1.45	1.66	0.62	0.44
Close	2.35	1.75	2.29	2.20	1.00
Volumes traded	15,639,902	2,632,210	4,828,891	1,667,034	528,211
OPERATING					
Daily sales volumes					
Natural gas (Mcf/d)	8,896	8,589	8,683	6,428	5,370
Light Oil (Bbl/d)	654	217	1	–	–
Heavy Oil (Bbl/d)	16	–	–	–	–
Liquids (Bbl/d)	26	17	28	–	–
Corporate (boe/d)	2,179	1,665	1,476	1,072	895
Netbacks ($/boe)					
Field	24.24	15.89	21.78	20.29	8.70
Cash flow	21.88	13.15	19.73	16.35	4.56
Corporate	5.64	1.28	10.17	4.49	(1.14)
Gross Company reserves (Mboe)					
Proved	4,377	4,705	2,178	2,512	2,116
Probable	1,668	567	562	198	139
Total	6,045	5,272	2,740	2,710	2,255
NPV of reserves at 10% ($000's)					
Proved	52,984	61,577	21,077	28,642	12,640
Probable	14,865	4,179	4,074	1,085	1,360
Total	67,849	65,756	25,151	29,727	14,000
Undeveloped land (net acres)	717,819	739,360	729,765	497,503	93,054
CAPITAL INVESTMENT (000's)					
Land & producing property acquisitions	310	1,490	4,224	1,081	111
Geological & geophysical	997	1,952	1,182		
Drilling & completions	14,384	6,778	13,353	6,911	2,895
Well equipment and facilities	5,623	2,381	1,648	2,595	3,874
Administrative	16	21	12	38	32
Acquisitions	4,400	20,061	–	–	–
Divestitures	(74)	(4,386)	(1,651)	(426)	–
Net capital invested	25,656	28,297	18,768	10,199	6,912

PRESIDENT'S**MESSAGE**

DEVLAN'S PYRAMIDIC STRATEGY IS A DEMONSTRATION OF RESULTS.

The past seven years of progressive growth in a continually evolving economic landscape provides testimony to this strategy's success. In this fundamental process, a solid core of properties provides a source of cashflow for continued growth and financial endurance. The year 2003 was another in a string of consecutive annual advancements highlighted by a number of new milestones here at Devlan Exploration.

ECONOMIC RESULTS:

- ▲ Cashflow increased by 118% over the prior year to $17.4 million
- ▲ Earnings increased by 477% over the prior year
- ▲ Increased cash flow net backs by 66% to $21.88 per boe
- ▲ Increased Annual Revenue 94% to $30.5 million

A pyramid relies on a broad footprint to ensure stability and success. This year the acquisition market became too over priced. Devlan was able to focus on our existing base of internal prospects to maintain growth and deliver sustainable results. These opportunities were a product of the drill bit coupled with a diverse inventory of drillable locations that allowed for enhanced growth without wading into a hot acquisition marketplace.

DRILLING RESULTS:

- ▲ 28 (net 19.0) wells drilled with an 83% success rate
- ▲ Increased proved developed reserves by 15.5% and proven plus probable reserves by 14.7%
- ▲ Drilled 26,500 metres, a 74% increase over 2002
- ▲ Increased daily production 31% to 2,179 boe/d from 1,665 boe/d

Facility optimization also moved to the forefront of our activities during the year. These activities were either to facilitate further expansion or to accommodate additional production already behind pipe. A good deal of these increases in production that we are now experiencing can be attributed to these proactive and prudent operations.

EXPANSION RESULTS:

- ▲ Reconfiguration of Marten Hills facilities at 2-28-74-4W5
- ▲ Expansion of Rainbow Lake compression and production facilities
- ▲ Upgraded Cadotte's entire compression and sweetening facility
- ▲ Established a new core area in Epping

Prospect development is the regenerative aspect of this evolving process. These potential opportunities for expansion are being identified on a continuous basis by management. Subsequently these opportunities become the Company's future expansion alternatives and our assurance for growth.

PROSPECT RESULTS:

- ▲ Eight new prospects were developed during 2003
- ▲ 7,683 (net 7,218) undeveloped acres were added
- ▲ 8,320 (net 8,320) undeveloped acres were optioned
- ▲ 70 km of 2D and 70 sections of 3D seismic was added to our seismic library

As we move forward into 2004 we expect the industry will continue to experience strong commodity prices and the effects of a maturing Western Canadian Sedimentary Basin. We will also continue to see a highly competitive acquisition market fueled by a growing royalty trust sector. Devlan has proven on an ongoing basis that it can persevere and prosper in this ever changing environment.

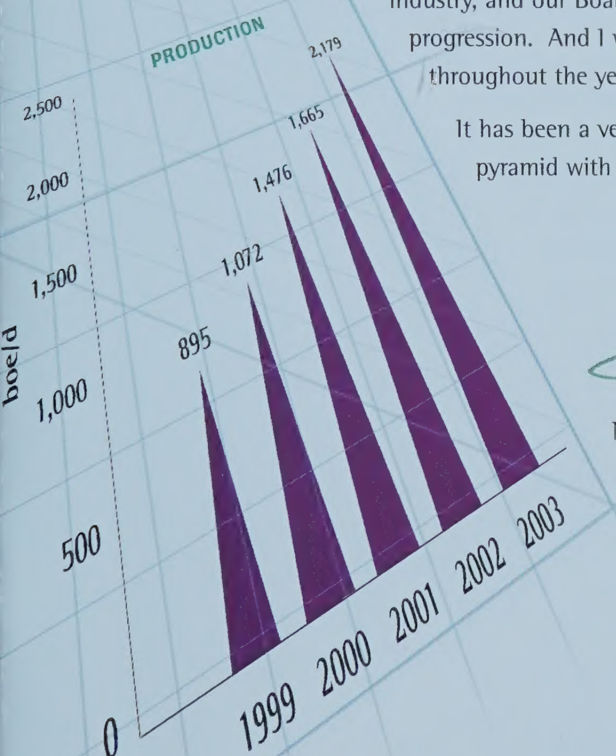
TO DATE 2004 RESULTS:

- ▲ Eight (net 4.0) Bluesky gas wells drilled with a 75% success rate
- ▲ Increased daily production by 57% in the new core area of Epping to 536 gross (386 net) barrels
- ▲ Increased production by 150% in Cadotte to 2,500 Mcf/d
- ▲ March exit production rate of over 2,800 boe/d

Before we advance to the next stage of our ascent I would like to pause and commend those who have played a critical role in achieving these continued accomplishments.

I would like to thank our staff, who come to work each day and continually rise to the challenges of our industry, and our Board of Directors who have played a critical role in maintaining Devlan's course of progression. And I would especially like to thank our shareholders for their patience and support throughout the years.

It has been a very intriguing year in the industry and I am excited at the prospect of filling our pyramid with greater treasures in the years to come.



Martin J. Cheyne
President & CEO

TO BUILD PROGRESSIVELY UPWARDS FROM A STRONG FOUNDATION.

2003 REVIEW OF OPERATIONS

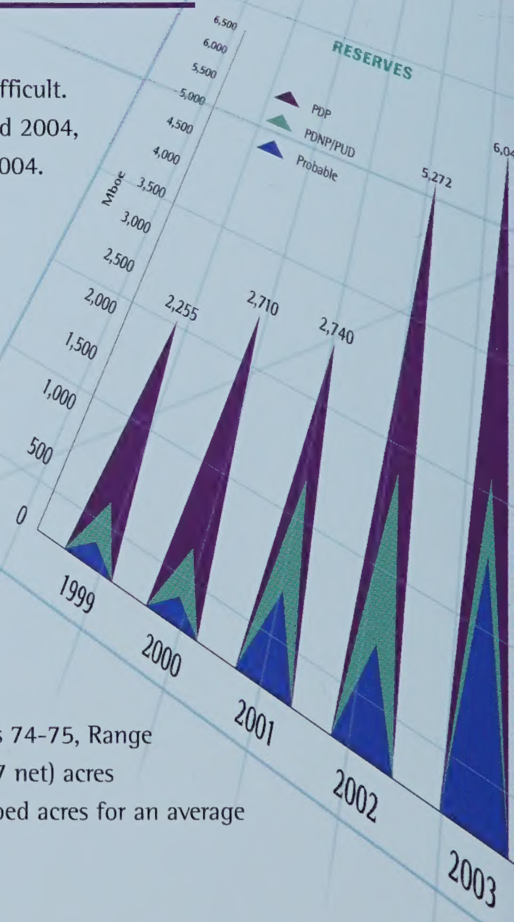
The result of activities undertaken by Devlan during 2003 was another consecutive year of expansion in the company's footprint. Highlighted with the Judy Creek acquisition and the success at Epping, Devlan demonstrated its strengths on a number of fronts. With the application of these strengths combined with proactive and prudent operations Devlan will continue to grow and deliver shareholder value.

A key measure of an energy company's future profit potential is reserves. Devlan has consistently increased its reserve base every year since 1996. With this aspect of the industry in mind and the newly implemented standards of disclosure for oil and gas activities we have set up the following comparison table for the Company's reserves. Management has provided a brief notation of the most pertinent differences but recommends that the National Instrument 51-101 (NI 51-101): Standards of Disclosure for Oil & Gas Activities be referenced in its entirety. The full NI 51-101 continuous disclosure documents are listed with the System for Electronic Document Analysis and Retrieval, "SEDAR".

	January 1 2003	January 1 2004	Year over Year % Change
GRAND TOTAL RESERVES (Mboe)			
Proved Developed Producing	3,244.8	3,746.7	15.5%
Total Proved	4,705.0	4,376.6	-7.0%
Established/Proved Plus Probable	5,271.9	6,045.2	14.7%
Net Present Value (M$, 10% Discount, Before Tax)			
Proved Developed Producing	43,957	45,834	4.3%
Total Proved	61,577	52,984	-14.0%
Established/Proved Plus Probable	65,756	67,849	3.2%

Note: 6 mcf = 1 boe

The new definitions of National Instrument 51-101 make direct year-to-year comparisons difficult. Keeping in mind that the definition of each category has changed slightly between 2003 and 2004, the above table summarizes Devlan's reserve reports as of January 1, 2003 and January 1, 2004. In the table, established (i.e. proved plus risked probable) reserves are shown in 2003, and proved plus probable (as per NI 51-101) reserves are shown in 2004. All volumes shown are gross company interest.



BASE PROPERTIES

Devlan maintains a base of stable properties that provides the Company with a solid foundation for growth. Annually, management strives to broaden this footprint with the development of our growth properties and/or the acquisition of complementary opportunities that uphold our selection criteria.

Marten Hills

The Marten Hills property is located northeast of Slave Lake, Alberta, centered on Townships 74-75, Range 03-04 W5M. As of December 31, 2003, Devlan's landholdings totalled 14,240 gross (13,847 net) acres consisting of 4,800 gross (4,562 net) acres undeveloped and 9,440 gross (9,285 net) developed acres for an average working interest of 97%.

The property is centered around the 100% Company owned and operated gas compression and dehydration facility at 2-28-74-4W5 with 71.9 km of associated pipelines connecting eight producing gas wells. In November 2003, the 2-28 facility was reconfigured and a booster compressor was added to allow increased low-pressure gas volumes. With these upgrades the facility operates with greater efficiencies and now has a capacity of 7 MMcf/d.

During 2003 gas production from this field averaged 4,945 net Mcf/d, accounting for 56% of Devlan's natural gas production. In this area sweet natural gas is produced from a number of zones in the Lower Cretaceous. The Upper Mannville Colony sand produces at various depths between 450 and 780 metres. Below this lies the lower Mannville Wabiskaw member of the Clearwater formation. Reservoirs in the Colony tend to be fluvial in origin while those of the Wabiskaw are of marine origin. In each case, the trapping of natural gas accumulations has both structural and stratigraphic components.

Since acquiring this property in 1998, Devlan has pursued the development of the area's natural gas reserves through the drill bit each year. As a follow-up to its 2003 drilling, the company identified two additional development locations targeting Wabiskaw gas. At the time of this report, both wells are in various stages of the drilling/completion operation. In keeping with the strategy of expanding its core areas, the company has also identified three other prospects within the area that have the potential to add production and utilize the Company's additional facility capacity. These prospects will be pursued during the remainder of 2004.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves at Marten Hills to be 6,369 gross (6,213 net) MMcf based on volumetrics using assigned drainage areas, by decline curve analysis, or by performance prediction. This property makes up 23.7% of Devlan's Total Proved Reserves and is operated by the Company.

Rainbow

The Rainbow Lake property is a multi-zone gas and oil prone area located west of High Level in Northern Alberta and consists of various interests in 58,045 gross (25,653 net) acres of land centered on Township 109-112, Range 03-08 W6M. The total acreage also includes 37,685 gross (16,623 net) undeveloped acres with numerous opportunities for further development.

This is Devlan's largest and most productive property consisting of two main batteries at 13-36-111-6W6M and 9-25-109-5W6M with 170 km of associated pipelines and over 50 producing wells. This infrastructure was expanded in March 2003 with the addition of a 400 hp compression facility at 3-30-111-5W6M and the installation of an additional 16 km of pipelines.

In 2003, a total of 12 (6.1 net) wells were drilled (in the four phases of a winter program) in the area, with a 100% success rate. Last years wells were split equally between gas and oil producers. In this winter's 2003-2004 drilling program more emphasis was placed on natural gas production. A total of eight (4.0 net) Bluesky gas wells were drilled into the Bluesky 'C' pool during the month of January with a 75% success rate. Net production averaged 897 boe/d in 2003. Current net production at Rainbow stands at 720 boe/d (6:1).

The Lower Cretaceous Bluesky formation

In the prolific Rainbow Basin, sweet natural gas is produced from the Bluesky formation. This sand is represented by a two-to-four metre thick marine unit resting unconformably on shales of the Mississippian Banff formation. The main reservoir exhibits high quality characteristics with open hole log porosities in the order of 33%. Pay thickness across the entire Bluesky 'C' pool averages 3.6 metres with an associated porosity averaging 23%.

With the addition of the new wells drilled in January 2004, Devlan currently produces 3,250 gross (1,800 net) Mcf/d from the Bluesky formation in the areally extensive Rainbow Bluesky 'C' pool. Occurring at a depth averaging 300 metres, the reservoir produces normally-pressured dry sweet gas. As of December 31, 2003 an aggregate of 5,424 MMcf of raw natural gas has been produced on Devlan's acreage.

The Lower Devonian Keg River formation

The Keg River reefs in the Rainbow basin were discovered in 1965 at an average depth of 1,600 metres. This formation, which has generated substantial oil production for almost four decades, consists of pervasively dolomitized stromatoporoid reefs which grew in a cyclically emergent evaporite basin. Stratigraphic trapping of hydrocarbons in the reefs is provided by the lateral change in facies from dolomite in the reef section to thick and massive-to-bedded evaporites of the Muskeg formation in the off-reef section. Reef growth was maintained during early Muskeg time by subsidence of the basin resulting in reefs reaching up well into the surrounding Muskeg evaporates. In general, the Keg River reefs occupying that portion of the Rainbow basin in which Devlan has been most active tend to be relatively small in areal extent averaging approximately 40 acres in size. Offsetting the areal extent of individual reefs is the gross pay thickness which averages 42 metres for pools underlying Devlan acreage.

The development of 3D seismic, in the in the mid 1980's, provided the petroleum industry with a new tool particularly well suited for the detection of the carbonate reefs in evaporitic basins as described above. Rock velocity contrasts between porous reef and tight off reef generate mappable signatures used to identify isolated reef build-ups. Devlan has utilized these advances in 3D seismic extensively in its exploration program for Keg River reefs and attributes its drilling success to this technology.

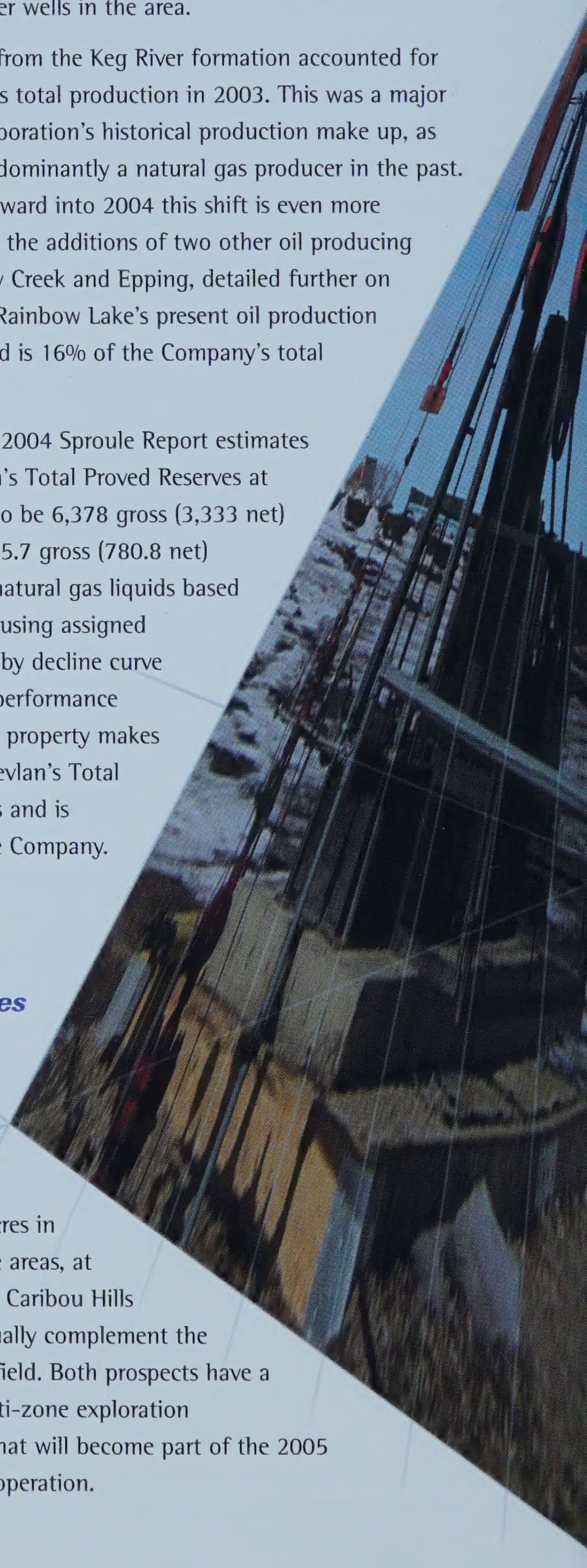
Since acquiring the property in June 2002, the company has identified a number of Keg River targets from its 3D seismic analysis. During 2003, six (3.0 net) Keg River wells were put on production. A seventh well drilled in March 2004 is currently under evaluation and represents a 100% success rate for drilling Keg River wells in the area.

Oil production from the Keg River formation accounted for 20% of Devlan's total production in 2003. This was a major shift in the Corporation's historical production make up, as Devlan was predominantly a natural gas producer in the past. As we move forward into 2004 this shift is even more prominent with the additions of two other oil producing core areas, Judy Creek and Epping, detailed further on in this report. Rainbow Lake's present oil production is 440 Bbl/d and is 16% of the Company's total production.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves at Rainbow Lake to be 6,378 gross (3,333 net) MMcf and 1,785.7 gross (780.8 net) MBbls oil and natural gas liquids based on volumetrics using assigned drainage areas, by decline curve analysis, or by performance prediction. This property makes up 30.5% of Devlan's Total Proved Reserves and is operated by the Company.

Adjacent Expansion Opportunities

Devlan has a 100% interest in an additional 16,640 undeveloped acres in two prospective areas, at Zama Lake and Caribou Hills that will eventually complement the Rainbow Lake field. Both prospects have a number of multi-zone exploration opportunities that will become part of the 2005 winter drilling operation.



Judy Creek

Judy Creek, located northwest of Whitecourt Alberta, is an established area acquired in March 2003, for its long life reserves. The property consists of two fields comprised of 15,680 gross (12,627 net) acres situated in Townships 62 and 64, Ranges 11 through 15 W5M. As of December 31, 2003 the area consisted of 11,200 gross (9,327 net) undeveloped acres and 4,480 gross (3,300 net) developed acres.

The Viking Field produces oil from the Viking formation of the Lower Cretaceous Colorado Group.

Devlan's Viking oil production consists of seven (5.9 net) wells producing 53 (40 net) Bbl/d of light gravity (38 degree API) oil via 49 km of associated pipelines into a central treating facility at 10-22-64-12W5M. Associated gas totalling 220 (165 net) Mcf/d is conserved by a 250 hp compression facility at the same location.

Production from the Viking formation is derived primarily from the first cycle of shoreface sands deposited at the onset of a transgressive period marking the beginning of Viking sedimentation in the Judy Creek area. Here the sedimentary section is characterized by a coarsening-upward sequence consisting of offshore marine shales grading shallower to silty fine-grained sands at the top of the cycle. Individual cycles are generally on the order of five to six metres in thickness with the top two-and-one-half to three-and-one-half metres being of reservoir quality.

Net oil pay for the Viking sand reaches three and one half metres. Porosity in the Viking A Pool for which the above figures apply averages 17% with the depth to the top of the reservoir averaging 1,430 metres.

As of December 31, 2003, cumulative oil production for the Viking A Pool wells within Devlan lands is 2,391,693 barrels. Since acquiring this property, net oil and gas production to the company has totalled 19,001 boe (6:1).

The Beaverhill Lake Field produces oil from the Swan Hills Member of the Upper Devonian Beaverhill Lake Formation

Beaverhill Lake production at Judy Creek consists of 11 gross (10 net) wells producing 116 gross (110 net) barrels of light gravity (42 degree API) oil per day via 21.8 km of associated pipelines into the 2-36-62-12W5M central battery. This 100% Company owned facility is comprised of emulsion separation and salt-water injection and is capable of processing Company volumes as well as third party volumes. Solution gas production, which averaged 190 (170 net) Mcf/d for December 2003, is conserved and compressed off site at a third party facility. Cumulative oil production to December 31, 2003 for the Devlan operated wells within the Judy Creek South Beaverhill Lake and Beaverhill Lake "C" pools is 4,521,325 boe. Since acquiring this property, net production volumes to the Company have totalled 46,340 boe.

Production from the Beaverhill Lake formation is derived from a reefal limestone of the Swan Hills Member. Developed on a succession of back-stepping platform cycles; reefs in the Judy Creek/Carson Creek area have a long history of significant oil production. Variations in the thickness of the micritic Beaverhill Lake deposits immediately overlying the Swan Hills Member provide stratigraphic trapping along the northeasterly trending reef margin serving to segregate pools along the margins edge. Depth to the reservoir averages 2,725 metres. Pay thickness averages eight metres in the area and porosity averages 7%.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves at Judy Creek to be 371.7 gross (291.6 net) MBbls and 604 gross (450 net) MMcf based on volumetrics using assigned drainage areas, by decline curve analysis, or by performance prediction. This property makes up 8.3% of Devlan's Total Proved Reserves and is operated by the Company.

Mooney

Mooney is located southwest of Slave Lake in Northern Alberta in close proximity to our Marten Hills property. In 2003, the area encompassed 8,000 gross (3,104 net) acres, which included an aggregate of 6,720 gross (2,720 net) undeveloped acres.

At Mooney, natural gas is produced from two non-operated wells in the Keg River formation and averaged 516 net Mcf/d with six net barrels per day of natural gas liquids during 2003. Recent upgrades to a third party facility, into which Devlan's wells produce, will increase the available capacity for higher volumes of lower pressure gas to be produced.

Effective February 1, 2004 Devlan acquired the balance of the working interest in the original producing gas well and an additional 50% interest in the other well mentioned above. Also included in the acquisition was an operated 50% interest in a Viking gas well that is to be tied in. Presently, the area is producing 1,850 (1,650 net) Mcf/d with 12 (11 net) Bbl of natural gas liquids to the Company. At a cost of $12.17 per boe in the ground this timely acquisition has already proven to be prudent in a heated existing production market.

The January 1, 2004 Sproule Report estimates Devlan's total Proved Developed Reserves at Mooney to be 1,175 gross (353 net) MMcf and 16.5 gross (4.9 net) MBbl of natural gas liquids. This property made up 1.5% of Devlan's Total Proved Reserves in 2003 and was non-operated.

With the purchase of those interests described above, Devlan estimates its Total Proved Developed Reserves at Mooney to be 1,175 gross (1,087 net) MMcf and 16.5 gross (15.2 net) MBbl of natural gas liquids. In addition to increased reserves, the acquisition will give Devlan operatorship of this property.

Cadotte

Devlan's Cadotte property is located just northeast of the town of Peace River in Northern Alberta. The 100% Company owned property consists of 3,200 acres, which includes 1,920 undeveloped acres. This area has undergone considerable change since its inception and holds the distinction as the first project to be developed from a Company prospect into a base property.

Central to the property is the main gas compression facility with 9.4 km of associated pipelines from two producing gas wells. Last year gas production from this field averaged 852 net Mcf/d, accounting for 10% of Devlan's natural gas production.

During the first quarter of 2003 a third well was drilled and a booster compressor was installed to facilitate the added production. In the final quarter of last year the area began to experience quality issues with the produced gas. A decision was made to install an upgraded facility with a larger compressor to rectify the problem and possibly elevate production. The new facility was back in full operation by mid-March, 2004 at a cost of $878,000.

At Cadotte Devlan produces natural gas from the early Cretaceous Bluesky/Gething interval within the Cadotte Bluesky-Gething "A" pool. Here local structures provide trapping for gas accumulations at the top of a fluvial system incised into the underlying Mississippian Debolt surface.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves in Cadotte to be 3,872 gross (3,872 net) MMcf. This property makes up 14.7% of Devlan's Total Proved Reserves and is operated by the Company.

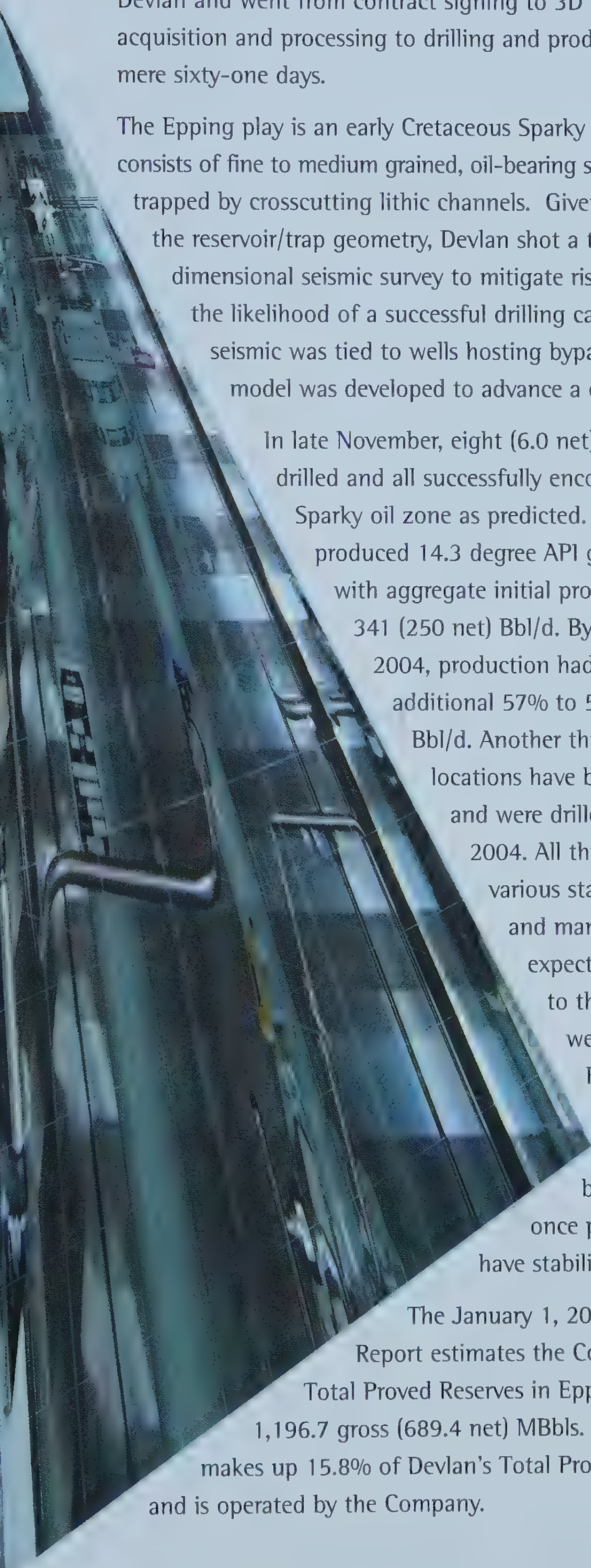
Epping

Epping is located in western Saskatchewan forty kilometers south-southeast of Lloydminster, just east of the Alberta/Saskatchewan border and consists of 957 (634 net) acres. This project originated with a third party farmout to Devlan and went from contract signing to 3D seismic field acquisition and processing to drilling and production in a mere sixty-one days.

The Epping play is an early Cretaceous Sparky sandstone that consists of fine to medium grained, oil-bearing shoreface deposits trapped by crosscutting lithic channels. Given the nature of the reservoir/trap geometry, Devlan shot a three dimensional seismic survey to mitigate risk and enhance the likelihood of a successful drilling campaign. The seismic was tied to wells hosting bypassed pay and a model was developed to advance a drilling program.

In late November, eight (6.0 net) wells were drilled and all successfully encountered the Sparky oil zone as predicted. The wells produced 14.3 degree API gravity crude oil with aggregate initial production rates of 341 (250 net) Bbl/d. By late February 2004, production had increased an additional 57% to 536 (393 net) Bbl/d. Another three drilling locations have been identified and were drilled in late March, 2004. All three wells are in various stages of tie-in and management expects similar results to the first eight wells drilled. Further expansion decisions will be determined once production levels have stabilized.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves in Epping to be 1,196.7 gross (689.4 net) MBbls. This property makes up 15.8% of Devlan's Total Proved Reserves and is operated by the Company.



GROWTH PROPERTIES

Devlan continues to develop a number of its ongoing opportunities and prospects through a controlled drilling program. These properties will eventually enhance the Company's base and provide growth from within. Last year growth properties made up 5.5 % of Devlan's proven reserves.

Twining

Twining is a multi-zone play located in south-central Alberta roughly sixty kilometers north-northeast of Calgary. The property originated with the purchase of 640 (640 net) acres at April 17th, 2003 Crown land sale and now consists of 3,680 (2,621 net) acres, which includes 1,280 (1,100 net) undeveloped acres.

In the last half of 2003 Devlan drilled four (2.69 net) wells resulting in two (1.34 net) gas wells and two (1.35 net) oil wells to complete earning obligations under a farm-in arrangement. The Company also participated in a fifth non-operated well that was a (0.55 net) dry hole. With three of the four wells now on production the area is producing 52 (36 net) Boe/d. The first well was put on production at an initial rate of 150 Mcf/d in early November with the construction of a 1.6 km tie-in. In February 2004, a second 3.2 km stage was added to the pipeline tying in the gas well and the solution gas associated with the first oil well. The second oil well is currently being evaluated.

The original target on the Twining lands was the early Cretaceous Glauconitic sandstone. A large three-dimensional seismic survey acquired by the Company is being interpreted with respect to deeper potential.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves in Twining to be 511 gross (342 net) MMcf and 35 gross (24.1 net) MBbls. Devlan operates this property.

Ferrier

The Ferrier property is located west of Rocky Mountain House and consists of 160 gross (36 net) acres.

Current production rates are 20 gross (4.5 net) Bbl/d and 40 gross (9 net) Mcf/d from the Cardium zone.

The Sproule Report dated January 1, 2004 estimates the Corporation's Total Proved Reserves in Ferrier at 93 gross (21 net) MMcf and 37.2 gross (8.4 net) MBbls. Devlan operates this property.

Red Earth

The Red Earth property is located northeast of Red Earth Creek, Alberta, and consists of 960 gross (480 net) acres including 640 gross (320 net) undeveloped acres.

The property currently produces oil from a four-metre-thick sandstone with 15% porosity within the Granite Wash zone. Production averaged seven gross (3.5 net) Bbl/d during 2003.

A second well at 10-36-87-8W5M was tied in and put on production in early February, 2004 with the completion of a 3.2 km pipeline. This well was stranded all of last year due to a number of facility/tie-in problems. Currently the well is producing 300 gross (150 net) Mcf/d from eight metres of gas-charged sandstone in the Bluesky formation.

The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves in Red Earth to be 566 gross (283 net) MMcf and 12.2 gross (6.1 net) MBbls. Devlan operates this property.

Boundary Lake

The Boundary Lake area is located Northwest of Grande Prairie in Northern Alberta and consists of 640 gross (640 net) acres. This is one of several prospects the Company is utilizing as an entry into the prolific Peace River Arch area.

In December 2003, Devlan drilled a multi-zone test to evaluate the Triassic section and was rewarded with a success in the Charlie Lake formation.

The well was tied in on March 18, 2004 and production has not yet stabilized. A second location targeting the Baldonnel formation has been identified and is expected to be drilled later this year.

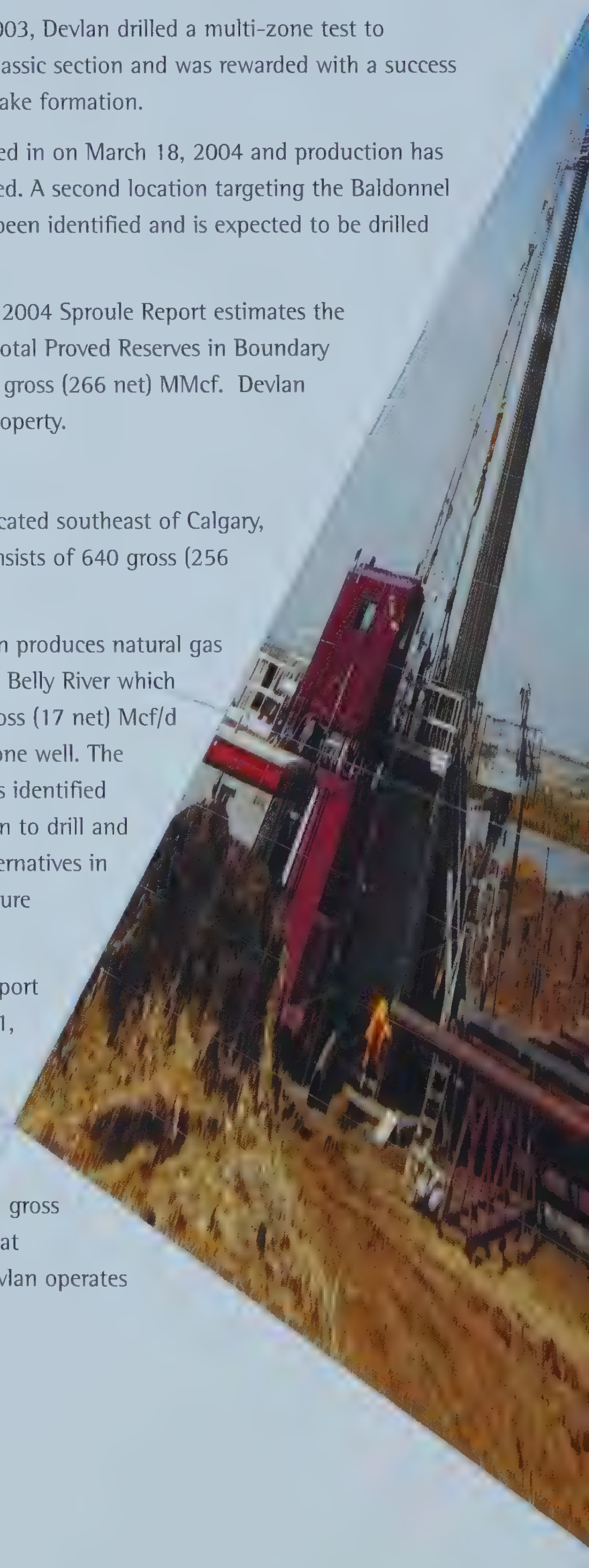
The January 1, 2004 Sproule Report estimates the Corporation's Total Proved Reserves in Boundary Lake to be 266 gross (266 net) MMcf. Devlan operates this property.

Herronton

Herronton is located southeast of Calgary, Alberta and consists of 640 gross (256 net) acres.

The Corporation produces natural gas from the Upper Belly River which averaged 43 gross (17 net) Mcf/d last year from one well. The Corporation has identified another location to drill and is exploring alternatives in the area for future expansion.

The Sproule Report dated January 1, 2004 estimates the Corporation's Total Proved Reserves of 101 gross (40 net) MMcf at Herronton. Devlan operates this property.



ONGOING OPPORTUNITIES AND PROSPECTS

Devlan has worked hard to maintain a large undeveloped land base that is full of potential with a large inventory of drill ready locations. A key aspect of these diverse holdings is the range of exploration risk. This ultimately allows the Company to manage its growth from within today and into the future.

PINTO

Devlan's Pinto property remains a focal point in the exploration program for the Company due to its potential to deliver high rate natural gas production. Flanked to the north and south by significant Wabumun Group producers, Devlan's 2,258 acre (1,129 net) Petroleum and Natural gas Licence is well-situated from a geological and infrastructure standpoint.

Two major prospects are developed on the Pinto acreage and both are well-defined seismically. The shallower of the two occurs in the Wabamun Group at roughly 4,800 metres while the deeper resides within the Leduc formation at 5,400 metres. While these depths carry high drilling costs, they also result in extremely high reservoir pressures and therefore potential for equally high production rates and reserves. In addition to the Devonian targets, Devlan has identified potential in the Cretaceous Cardium formation on this property.

Cardium Formation

One of the shallowest zones considered prospective at Pinto is the Late Cretaceous Cardium formation. The Cardium occurs at depths starting at roughly 2,800 metres and is well imaged in Devlan's 3D seismic survey. Lying within the disturbed belt of the Western Canadian Sedimentary Basin, the Cardium formation shows the thrust faults that define the disturbed belt. A number of sub-parallel thrusts have been identified within the Cardium and each fault slice has the potential to contain natural gas.

Similar patterns in the Cardium are found at Ansell and Medicine Lodge to the east where the Cardium has produced from multiple thrust sheets in the same wellbore at many locations over the years.

Wabamun Group

Two wells currently produce natural gas from the Wabamun from leases either adjacent to or in close proximity to Devlan's acreage. In each case, initial productivity rates exceeded 20 MMcf/d including periods of three months consecutively when productivity was 29 MMcf/d for one well and 32 MMcf/d for the other. In both cases, the wellbores encountered fractured and highly over-pressured reservoir rock in the Wabamun. The nature of this occurrence lends itself well to seismic imaging and Devlan has completed extensive modelling studies of the Wabamun at Pinto in developing this prospect. With the shooting of a proprietary 3D seismic survey which not only covers Devlan acreage completely but also one of the known Wabamun producers, the company has developed a drill-ready target to access a new Wabamun gas pool. Notwithstanding the attractive risk/reward profile, Devlan will seek additional partners to proceed with drilling at Pinto to limit overall cash exposure.

Leduc Formation

At Pinto, the late Devonian Leduc formation transitions from reef mass in the west to basinal shales of the Ireton formation to the east. This change is abrupt and readily identified using seismic imaging methods. At many reef margins, reef growth in the form of isolated pinnacle reefs occurs basinward of the main reef mass as smaller colonies of reef building organisms cluster together and grow vertically to overcome sedimentation rates as the basin subsides and water depths increase. The result is a pinnacle reef separate and distinct from the main reef mass with its own hydrodynamic regime. Pinnacle reefs such as this are known to occur in the Leduc formation in other parts of the Western Canadian Sedimentary basin and Pinto is no exception. The 3D seismic survey recorded by Devlan was fortuitously shot over one such pinnacle reef. All of the seismic signatures characteristic of Leduc pinnacles are present in the seismic record at Pinto including drape in the overlying section, bed truncations against the reef, loss of reflective character within the reef, and velocity pull-up in the underlying section. As in the case of the Wabamun target, Devlan will seek additional partners to further develop the Leduc prospect.

ONGOING **OPPORTUNITIES** AND **PROSPECTS** (CONTINUED)

CABIN CREEK

Located 30 kilometres northwest of the Pinto prospect, Devlan's Cabin Creek prospect is contained within the 10,880 acre (8,160 net) petroleum and natural gas licence acquired by the company in 2001 and like Pinto, the Cabin Creek prospect lies within the foothills region of western Alberta. At Cabin Creek, Devlan has identified two features similar to the fractured Wabamun structures at Pinto although through the use of trade 2D seismic only. Additional seismic modelling of the Cabin Creek Wabamun features is underway to provide greater clarity on the nature of these anomalies as a precursor to further exploration.

NORTHWEST TERRITORIES

Regarded by some as one of the few remaining frontiers for oil and gas exploration in Canada, the Northwest Territories has been thrust into the spotlight for a number of reasons not the least of which is renewed interest in the construction of a natural gas pipeline to transport natural gas from the Arctic to an ever-expanding market both in Canada and the United States. Once this project moves forward exploration along the pipeline corridor will follow quickly as companies vie for acreage in close proximity to the infrastructure. Currently Devlan is the only junior exploration company with a toe-hold in exploration acreage along the proposed MacKenzie Valley pipeline route between Norman Wells and Inuvik and as such is in a unique position amongst its peers.

During 2003 Devlan succeeded in identifying reservoir quality rock in the Devonian section underlying one of its exploration licences ("EL") and in doing so has opened the door to further exploration on its extensive landholdings in the Grandview Hills area. At present the company holds a 50% working interest EL 386 and 100% working interest in EL 413. The areas covered by these ELs are 286,842 gross (143,421 net) acres and 201,160 gross (201,160 net) acres respectively. In March, 2004 the company elected to drop two other ELs in which it held a 50% working interest rather than assume 100% of the lease continuation costs as the joint venture partner had served notice of its intention not to participate in continuing the lands beyond their anniversary date.

Those who have followed Devlan's progress on this play will recall the last well drilled, "Tree River C-36", was located in a structurally low collapse feature designed to test for fracturing and brecciation within the Devonian Bear Rock and Ronning sections. Testing in the lower Ronning at C-36 confirmed the presence of reservoir quality rock containing formation water and open hole well logs indicated a similar situation in the Bear Rock. The ability to move to a structurally higher position is afforded at many locations on Devlans existing ELs. On the company's wholly-owned EL which hosts the Little Chicago prospect, the Bear Rock formation occurs at a depth of roughly 700 metres and transitions in an easterly direction from brecciated carbonate to tight limestone providing an updip seal for hydrocarbons that may have accumulated in the porous reservoir. Gas flows noted in seismic shot holes drilled in the area some forty years ago provide evidence of hydrocarbons in the underlying strata and bolster the case for further exploration.

Devlan is developing plans to drill one well on EL 413 during 2004 . The company's previous drilling operations have been carried out during the winter months when access has been by way of trucking over an ice road at great expense. Devlan has determined that a favourable location can be drilled during the summer months with a drilling rig and supplies barged on the MacKenzie River to a staging area then off-loaded and taken a short distance overland with tracked vehicles on matting where necessary. In this manner expenses will be trimmed significantly and Devlan's impact on the environment will be minimized. Currently the Company is coordinating the logistics and permitting requirements in the area.

PROSPECTS

The biggest driver to any of our future prospects is expansion capability. Every prospect on our list of opportunities has the ability to progress into a growth property and eventually become a base area. By adhering to these fundamentals Devlan has consistently achieved results from our internal resources.

Going into 2004 the Company has a number of prospects including Lonestar, Clear River and several excursions into the Peace River Arch area, high-lighted as stars on the adjoining map. These northern opportunities have proven to be very rewarding in the past both operationally and functionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with the audited Financial Statements and Notes for the years ended December 31, 2003 and December 31, 2002. Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. Where amounts are expressed in a barrel of oil equivalent (boe), gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet per barrel. All dollar amounts below are in thousands of Canadian dollars except for per share data.

2003 FINANCIAL SUMMARY

In 2003 the Company attained both an all-time record cash flow and net earnings. Commodity prices rebounded from 2002 and coupled with the larger production base attained from the corporate acquisition during that year the Company concentrated on its internally generated prospects in 2003. The Company achieved an average price of $38.30 per boe returning a $21.88 per boe cash flow netback, which in turn gave the Company the resources to drill 28 (19.1 net) wells. An 83% success rate was achieved on the 2003 drilling program and this resulted in a 31% growth in production volumes and a 15% growth in established reserves.

DETAILED FINANCIAL REVIEW

Petroleum revenue

Petroleum and natural gas sales increased 94% to $30,455 from $15,689 in 2002.

Natural gas sales accounted for 68% of the company's production revenue in 2002 while in 2002 it was 86%. The Company had a costless collar with respect to 6,000 GJ's per day of its gas production for the summer months of 2003. This contract resulted in a gain of $150 for its duration. The oil production acquired in the corporate acquisition during 2002 added both diversity to the commodity mix and took advantage of the rising oil prices. The Company averaged $38.60 per barrel of light oil during 2003 compared to $41.15 in 2002. During 2003 the Company had in place a fixed price contract with respect to the sale of 300 barrels of light oil per day. The price was fixed at $26.87 US per barrel for the entire year. This contract resulted in a hedging loss of $155 for the fourth quarter of 2003 while on a year to date basis the loss was $616. In the last month of 2003 the Company commenced production from its newly drilled heavy oil wells in Marsden, Saskatchewan. The price achieved (net of differentials) for this production was $25.22 per barrel. Three additional wells are planned for 2004. The area to which these wells relate is limited in development due to surrounding lands being controlled by major producers. This opportunity allowed the Company to access long life reserves at a reasonable cost.

Quarterly average production volumes (boe/d)	Q1	Q2	Q3	Q4	Year
December 31, 2003	2,001	2,426	2,110	2,177	2,179
December 31, 2002	1,223	1,289	2,081	1,958	1,665

Aggregate Production Volumes	2003	2002	%
Natural gas (mcf)	3,246,885	3,134,918	4
Light/Medium Oil (bbl)	238,810	79,113	202
Heavy Oil (bbl)	5,967	–	–
Natural gas liquids (bbl)	9,329	6,152	52
Barrels of oil equivalent (boe)	795,254	607,751	31

Prices	2003	2002	%
Natural gas ($/mcf)	6.45	3.85	68
Light/Medium Oil ($/bbl)	38.60	41.15	(6)
Heavy Oil ($/bbl)	25.22	–	–
Natural gas liquids ($/bbl)	32.65	35.93	(9)
Barrels of oil equivalent ($/boe)	38.30	25.57	50

Royalties

Royalty expense in aggregate increased 122% in 2003 to $5,199 from $2,340 in 2002. The 94% increase in production revenues resulted in higher royalty expense. As a percentage of revenues the royalty rate increased 13% from 15.1% in 2002 to 17.1% in 2003. The 2002 percentage rates in the table below do not include $146 of processing revenue, which was included in production revenue for that year. The increase in royalty rates in 2003 was the result of the Company coming off royalty holidays on certain of its production as well as the Company's shift to drilling on Crown lands which resulted in the higher Crown royalty rate.

Royalties	2003		2002	
	$000's	Rate %	$000's	Rate %
Crown, net of ARTC	4,345	14.3	1,962	12.7
Freehold & gross over-riding	854	2.8	378	2.4
Total royalties	5,199	17.1	2,340	15.1
Royalties per boe	$6.54		$3.85	

Operating Expenses

Operating expenses increased 62% during 2003 to $5,980. This expense represents 20% of gross production revenue. In 2002, the Company incurred $3,695 in operating expenses or 24% of production revenue. Higher production levels resulted in a 17% decline in the rate of operating expenses to gross revenue. On a per boe basis, operating expenses translate into a 24% increase to $7.52 in 2003 compared to $6.08 in 2002. The higher operating cost property in Rainbow Lake is the main contributor to this increase. Higher transportation costs for both oil and natural gas, higher insurance costs resulting from a general higher movement in insurance rates and higher maintenance on this property cause the company average to go higher.

Operating Netbacks ($ per boe)	2003	2002	%
Average selling price	38.30	25.57	50
Royalties (net of ARTC)	(6.54)	(3.85)	70
Operating expenses	(7.52)	(6.08)	24
Processing	–	0.25	–
Field Netback	24.24	15.89	53
General and administrative	(1.31)	(1.39)	(6)
Interest	(1.01)	(1.29)	(22)
Current income taxes	(0.13)	(0.16)	(19)
Other income	0.09	0.10	(10)
Cash flow netback	21.88	13.15	66
Deferred revenue	0.10	0.64	(84)
Depletion, depreciation, amortization	(14.72)	(11.86)	24
Future income taxes	(1.62)	(0.65)	149
Net earnings	5.64	1.28	341

General and Administrative Expense

General and administrative (G&A) expenses on a gross basis increased by 19% in 2003 to $1,714 from $1,441 in the comparable period in 2002. The higher emphasis on internally generated drilling opportunities caused the G&A costs to go higher in 2003. Larger space and staff needs were required mid-way through 2002, thereby causing the comparable increase in 2003 to be more dramatic. The increase in overhead recoveries of 13% in 2003 is the result of the Company expanding its drilling programs for which it undertook to operate most of during the year. As a result of its increased production levels, the Company was able to achieve a decline of 6% in its G&A cost per boe to $1.31 as compared to $1.39 in 2002.

General and Administration Expense ($000's)	2003	2002	%
Gross expense	1,714	1,441	19
Less:Overhead recoveries	(485)	(429)	13
Capitalized overhead	(184)	(170)	8
Net expense	1,045	842	24
Average cost ($ per boe)			
Gross expense	$2.16	$2.37	(9)
Net expense	$1.31	$1.39	(6)

Interest Expense

There was an increase in interest expense of 2% during 2003 to $799 from $782 in 2002. While average debt outstanding was 55% higher in 2003, the average interest rate declined 26% from 2002 levels in the year. During 2003 the Company bought out three double-digit interest rate capital leases, two of which were taken over during the corporate acquisition in 2002 and the third being one of its own financings from 1999.

Interest ($000's)	2003	2002	%
Interest per financial statements	799	782	2
Part XII.6 tax & other	(21)	(95)	(78)
Debt bearing interest	778	287	13
Average debt outstanding	14,764	9,497	55
Average interest rate	5.3%	7.2%	(26)
Average total interest cost per boe	$1.01	$1.29	(22)

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("D,D & A") expense increased 62% to $11,705 in 2003 compared to $7,210 in 2002. The most significant component of this expense is the depletion expense, which is calculated on the unit of production method using only proven reserves. Production was 31% higher in the year, therefore the depletion charge will increase correspondingly. The Company has spent significant capital in the Northwest Territories over the last three years and the costs are included in the depletion base. No reserves have been booked to this project and consequently the depletion charges also reflect this. On a per boe basis the aggregate D,D&A expense has increased 24% to $14.72 compared to $11.86 in 2002.

Depletion, Depreciation and Amortization	2003		2002	
	000's	$/boe	000's	$/boe
Depletion and depreciation expense	11,446	14.39	7,111	11.70
Future site restoration and abandonment costs	259	0.33	99	0.16
Total	11,705	14.72	7,210	11.86

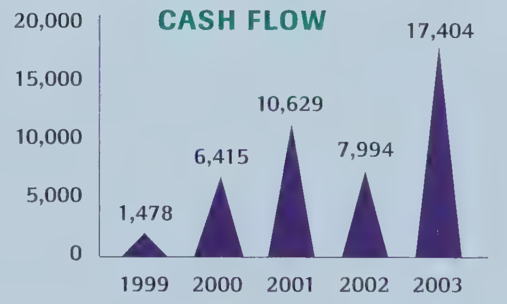
Income Taxes

The Company's current income tax expense of $97 (2002 - $96) relates solely to Federal Large Corporations capital tax. Devlan did not pay any current income tax during 2003 as it had sufficient tax pools to eliminate its taxable income. The Company recorded $1,289 in future income tax expense, which was a 225% increase from $397 in 2002. The increase in future tax expense is mainly attributable to the timing differences between D,D&A charges compared to the accelerated availability of tax pool claims. The effective rate of tax during 2003 was 22% and this was the result of the following factors: there was 1% reduction of federal income tax rates and a 0.5% reduction in provincial income tax rates; there is a five year phasing out of the deductibility of crown charges and the resource allowance deduction, and there is a five year phase in of lower federal income tax rates commencing in 2003. All of these were favorable to the Company and it was able to recognize the benefits of the changes in the current year. As at December 31, 2003 the Company had the following tax pools available shown at right.

Tax Pools	Rate %	$000's
Canadian exploration expense	100	20
Canadian development expense	30	7,313
Canadian oil and gas property expense	10	14,133
Undepreciated capital costs	10 - 30	12,964
Financing costs	20	1,211
Foreign exploration and development expense	10	763
Attributed Canadian Royalty Income expense	100 (Prov)	3,463
Total		39,867

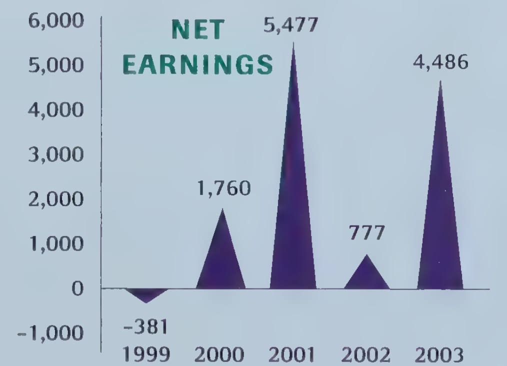
Cash Flow

Cash flow from operations represents cash generated from operating activities before changes in non-cash working capital. It is a not a Generally Accepted Accounting Principle measure. Cash flow from operations per share for Devlan may not be comparable to similar measures used by other companies and as a result, commencing with the second quarter it is not reflected in the financial statements as per the recommendation of the Canadian Institute of Chartered Accountants. From the second quarter of 2003 onward cash flow per share was disclosed only in the Management Discussion & Analysis. Aggregate cash flow increased 118% in 2003 to an all-time high of $17,404 compared to $7,994 in 2002. 2003 cash flow per share was $0.79 as compared to $0.44 in 2002. On a diluted basis, cash flow was $0.78 per share in 2003 and $0.43 in 2002. Higher production, average prices and operating netbacks collectively contributed to the increase in cash flow for the year.



Net Earnings

Net earnings increased 477% from $777 in 2002 to $4,486 in the current year. Net earnings per share (basic and diluted) were $0.20 in 2003 compared to $0.04 in 2002. The higher cash flows during the year were the prime contributor to the increases.



Capital expenditures and dispositions

Overall, net capital expenditures decreased by 9% in 2003 compared to 2002. The expenses are summarized as follows:

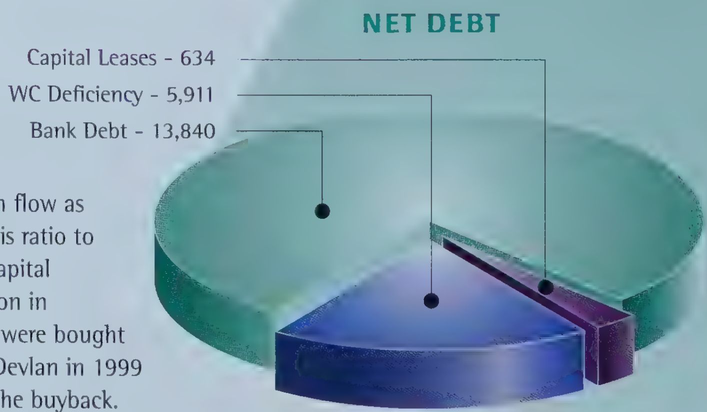
Capital Expenditures ($000's)	2003	2002
Land acquisitions and lease rentals	310	1,490
Geological and geophysical	997	1,952
Drilling and completions	14,384	6,778
Well equipment and facilities	5,623	2,381
Producing property acquisitions	4,400	–
Corporate acquisition	–	20,061
Other	16	21
Total capital expenditures	25,730	32,683
Disposals	(74)	(4,386)
Net capital expenditures	25,656	28,297

In 2003, the Company focused mainly on drilling on its undeveloped land base while in 2002 the Company channeled its efforts towards optimizing its acquisition of the Rainbow Lake property. As a result, the Company increased spending on drilling and completions by 112%. The Company also continued to evaluate strategic and value driven acquisitions in the year. Devlan acquired a producing property at the end of the first quarter of 2003 in the Judy Creek, Alberta area. The acquisition added approximately 256 barrels of oil equivalent and a new core area with established reserves in the ground costing $11.06 per barrel. The 79% decrease in land acquisitions and lease rentals was mainly the result of a refund of $1.8 million with respect to Crown lease rentals paid in prior years on the Northwest Territories lands. The Company earns these rentals back from the Crown as it spends money on qualifying projects. Also in 2003, the Company participated in one well in the Northwest Territories at a net cost to Devlan of $3.6 million including site access and drilling costs.
The Company drilled 28 gross (19.1 net) and recompleted two (1.5 net) wells during 2003, which are summarized below:

	2003		2002	
Wells drilled	Gross	Net	Gross	Net
Exploration	7	4.8	3	2.2
Development	16	10.9	7	3.3
Dry holes	5	3.4	3	1.6
Service wells	2	1.5	3	1.5
Total wells	30	20.6	16	8.6
Success rate	83%	83%	81%	81%

Liquidity and Capital Resources

The Company's bank debt, which is comprised solely of a revolving production loan increased 6% in 2003 to $13,840 from $13,100 in 2002. The increase was mainly the result of late fourth quarter drilling efforts in 2003. Net debt exited 2003 at $20,385 as compared to $17,065 in 2002. This represented an increase of 19%. The net debt to cash flow ratio ended the year at 1.2 times trailing cash flow as compared to 2.1 times in 2002. Increased cash flows in 2003 caused this ratio to decrease from 2002 levels. During 2003, the Company paid out three capital leases. Two of the leases were from assumed in the corporate acquisition in 2002 and both had effective interest rates of 19.1%. These two leases were bought out for $299 in aggregate. The third capital lease was entered into by Devlan in 1999 and reached its termination in April of 2003 with $450 being paid on the buyback.



On and ongoing basis, Devlan will utilize three sources of funds to finance its operations. The first is its internally generated cash flow. Devlan generated $17,404 in cash flow in 2003, which was used extensively and fully to fund its capital program. Second, Devlan then relies on its corporate debt capabilities to fund both its operations and capital spending.

Corporate debt has and is anticipated to consist of three major components. The first, and the largest is the revolving production facility from the Company's bank. The authorized limit at the end of 2003 was $18,200. This facility is based on the producing property reserve base of the Company and has the potential to be increased if new reserves are added during the year. The Company must review its facility with its bank no later than April 30, 2004 by producing to the bank its independent evaluation of its reserves.

The second component is a working capital deficiency (exclusive of bank debt and capital leases). At the end of 2003, the working capital deficiency was $5,911. At the end of 2002, the deficiency was $2,097. Working capital deficiencies are not uncommon for the Company at year-end given that many of its drilling projects are winter weighted.

The final component is the capital leases. Devlan has attempted to reduce this aspect of its financing structure throughout the last two years since the interest rates on these leases were all in the double digits. At the end of 2003, $634 was left outstanding on three capital leases. Devlan anticipates that one of the remaining three will be bought our early in 2004 with the remaining two running their term to expiry in May of 2005.

The third source of funds at the Company's disposal is the use of the equity markets to raise money. During 2003 the Company raised $5,120 of flow through share equity to assist in its exploration efforts. As at December 31, 2003 there were 23,187,861 shares outstanding. Total volumes traded in 2003 were 15,639,902 as compared to 2,632,210 in 2002. This represented a 494% increase in trading volumes during the year and translated into 62,811 (2002 – 10,445) shares being traded on a daily basis. The high for the year was $2.95 while the low was at $1.44. The stock price closed the year at $2.35. A summary of the trading history for the last two years is as follows:

	2003					2002				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
High	2.05	2.29	2.95	2.73	2.95	2.49	2.39	2.00	1.80	2.49
Low	1.44	1.58	2.01	2.15	1.44	2.05	1.93	1.67	1.66	1.45
Close	1.78	2.15	2.51	2.35	2.35	2.30	1.90	1.60	1.75	1.75
Volume (000's)	3,891	4,164	3,723	3,862	15,640	639	996	294	703	2,632

Devlan believes that the cash flow generated from its operations, together with existing and expected bank facilities will be sufficient to finance current operations and planned capital expenditures in 2004. Devlan may adjust its capital program depending on commodity prices, its drilling success, the general state of the economy and always with the approval of the Board of Directors.

Business Risks

Devlan is exposed to a variety of business risks, which can be grouped into the three main categories of operational, economic and financial.

Operational risks are wide ranging, but are generally considered by Devlan to be associated with controlling its operations and environmental issues. The oil and gas industry is subject to extensive and continually changing regulations imposed by the various governments with respect to the protection of the environment. The Company is committed to operating in a responsible fashion and being a good corporate citizen. The Company abandons a certain number of its inactive wells every year up to industry and legislated standards so that environmental issues and the future aggregate corporate liability is mitigated. Environmental risks are associated with the Company's field operations and are managed by Devlan's adoption and compliance with a corporate safety and environmental standards policy. The Company carries appropriate environmental liability insurance and reviews and updates its needs at least once per year. For work performed in the Northwest Territories, the Company undertakes an environmental assessment on the specific lands within which it is exploring. Devlan strives to be the operator wherever possible so as to take advantage of its strong operational expertise. Devlan operates over 95% of its production. The Company also carries and adequate level of insurance with respect to: drilling, blowouts, business interruption and third party liability.

Economic risks include the ability of the Company to find sufficient new reserves to replace or add to its reserve base and to produce reserves at a cost low enough to provide adequate economic returns to the Company. The oil and gas industry is inherently high risk due to the uncertainty associated with finding new reserves coupled with the instability of commodity prices. The Company generates most of its exploration prospects internally. Significant geological, geophysical and engineering analysis are performed before the Company commits its resources to a project. The Company further seeks to mitigate the risks of exploration and development by securing partners for projects within which the Company believes it has reached its risk threshold.

Financial risks are mainly outside the control of the Company. Risks such as commodity prices, interest rates, income tax rates, foreign exchange rates and inflation fall into this category. Devlan has the ability to manage commodity prices by using financial derivatives. The Company will enter into hedging contracts for the sale of its oil and gas when it perceives it is beneficial to do so in consultation with experts in the marketing field and always with the approval of the Board of Directors. Furthermore, maintaining a reasonable net debt to cash flow ratio is a stated objective of management. The Company intends to not surpass the 1.5 times debt to trailing cash flow unless the increased debt is warranted by a strategic or value driven acquisition. Also, Devlan has an internal mandate to not exceed the total net debt to enterprise value ratio of 30%. At the end of 2003 the ratio was approximately 25%.

MANAGEMENTS'S REPORT

The accompanying Consolidated Financial Statements, Management's Discussion and Analysis of financial condition and Review of Operations and all other information presented in the Annual Report is the responsibility of the Company's management. The Management's Discussion and Analysis of financial condition and Operating Results is reflective of management's views of the industry environment, current and future trends, and their effect on the Company's December 31, 2003 Financial Statements and future results.

The Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The Company's internal controls have been designed and maintained by management to provide reasonable assurance that assets are properly safeguarded, and that the financial records are sufficiently well-maintained to provide relevant, timely and reliable information to management and to allow preparation of the Consolidated Financial Statements in accordance with the Company's accounting policies. Certain estimates are made by the management in the preparation of the Consolidated Financial Statements. In the opinion of management, the Consolidated Financial Statements have been prepared within reasonable limits of materiality, and within the framework of the significant accounting policies as summarized in the Notes to the Consolidated Financial Statements.

Deloitte & Touche LLP, an independent firm of chartered accountants, have been appointed by the Shareholders to examine the Consolidated Financial Statements and to report to the Shareholders. The Audit Committee, consisting of non-management directors, has reviewed the Consolidated Financial Statements with management to determine if management has fulfilled its responsibilities in their preparation. The Audit Committee has reported its findings to the Board of Directors, who have approved the Consolidated Financial Statements.

Martin J. Cheyne, President &
Chief Executive Officer

Gerald Gilewicz

Gerald N. Gilewicz, CMA
Chief Financial Officer

AUDITOR'S REPORT

To the Shareholders of

Devlan Exploration Inc.

We have audited the balance sheets of Devlan Exploration Inc. as at December 31, 2003 and 2002 and the statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
March 5, 2004
except as to Note 15 which is as of March 18, 2004

Chartered Accountants

STATEMENT OF EARNINGS AND RETAINED EARNINGS

Years Ended December 31,
(thousands of dollars, except per share data)

	2003 $	2002 $
REVENUE		
Production revenue	30,455	15,689
Royalties (Note 11)	(5,199)	(2,340)
Amortization of deferred revenue	76	390
Interest and other	69	60
	25,401	13,799
EXPENSES		
Operating	5,980	3,695
General and administrative	1,045	842
Interest and bank charges (Note 11)	799	782
Depletion, depreciation and amortization	11,705	7,210
	19,529	12,529
EARNINGS BEFORE INCOME TAXES	5,872	1,270
INCOME TAX EXPENSE (Note 9)		
Current	97	96
Future	1,289	397
	1,386	493
NET EARNINGS	4,486	777
RETAINED EARNINGS, BEGINNING OF YEAR	5,804	5,053
REPURCHASE OF SHARES (Note 7(b))	(107)	(26)
RETAINED EARNINGS, END OF YEAR	10,183	5,804
NET EARNINGS PER SHARE (Note 8)		
Basic	0.20	0.04
Diluted	0.20	0.04

BALANCE SHEET

December 31, (thousands of dollars, except per share data)	2003 $	2002 $
ASSETS		
CURRENT		
Cash and short-term deposits	—	942
Accounts receivable	7,172	7,012
Prepaid expenses and deposits	388	342
	7,560	8,296
Petroleum and natural gas properties and facilities (Note 4)	70,854	56,644
	78,414	64,940
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	13,471	10,393
Bank debt (Note 5)	13,840	13,100
Current portion of obligations under capital leases (Note 6)	260	1,031
	27,571	24,524
Obligations under capital leases (Note 6)	374	837
Deferred revenue	—	76
Future site restoration and abandonment costs	1,286	1,027
Future income taxes (Note 9)	13,884	9,968
	43,115	36,432
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	25,116	22,704
Retained earnings	10,183	5,804
	35,299	28,508
	78,414	64,940

Commitments and Guarantees (Note 12)

APPROVED BY THE BOARD

Director

Martin J. Cheyne

Director

Bradley B. Porter

STATEMENT OF CASH FLOWS

Years Ended December 31,
(in thousands of dollars, except per share data)

	2003 $	2002 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	4,486	777
Adjustments for:		
Depletion, depreciation and amortization	11,705	7,210
Future income taxes	1,289	397
Amortization of deferred revenue	(76)	(390)
Cash flow from operations	17,404	7,994
Changes in non-cash working capital (Note 13)	884	643
	18,288	8,637
FINANCING		
Proceeds from private placement, net of share issue costs	4,825	8,906
Proceeds from exercise of stock options and warrants	348	10
Proceeds from advances from bank debt	740	13,100
Repayment of bank debt	–	(11,677)
Advances from related parties	–	2,190
Repayment of advances from related parties	–	(2,190)
Repayment of obligations under capital leases	(1,234)	(1,337)
Repurchase of common shares	(241)	(72)
	4,438	8,930
INVESTING		
Additions to petroleum and natural gas properties	(25,714)	(12,603)
Corporate acquisition (Note 3)	–	(9,433)
Proceeds from disposal of properties and equipment	74	4,386
Additions of administrative assets	(16)	(19)
Changes in non-cash working capital (Note 13)	1,988	(1,463)
	(23,668)	(19,132)
NET DECREASE IN CASH AND SHORT-TERM DEPOSITS	(942)	(1,565)
CASH AND SHORT-TERM DEPOSITS, BEGINNING OF YEAR	942	2,507
CASH AND SHORT-TERM DEPOSITS, END OF YEAR	–	942

Supplemental cash flow information (Note 13)

Years Ended December 31, 2003 and 2002
(thousands of dollars, except per share data)

1. BASIS OF PRESENTATION

These financial statements include the accounts of Devlan Exploration Inc. (the "Company") and are presented in accordance with Canadian generally accepted accounting principles. The Company is in the business of exploration, development and production of natural gas, natural gas liquids and oil.

2. SIGNIFICANT ACCOUNTING POLICIES

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires that Management make estimates and assumptions and use judgement regarding assets, liabilities, revenues and expenses. Accordingly, actual results may differ from estimated amounts as the related future confirming events occur.

Amounts recorded for depletion, depreciation and amortization, future site restoration and abandonment costs and amounts used for ceiling test and impairment calculations are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Cash and short-term deposits

Cash and short-term deposits include short-term investments such as money market deposits or similar type investments having a maturity date of ninety days or less when purchased.

Petroleum and natural gas properties and facilities

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flowline and facility costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities.

Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

Revenue recognition

Revenues associated with the sale of the Company's natural gas, natural gas liquids, and crude oil owned by the Company are recognized when title passes from the Company to its customer.

Depletion and depreciation

Petroleum and natural gas properties and facilities costs are depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. For purposes of this calculation proven natural gas reserves and production are converted to equivalent volumes of crude petroleum based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Costs related to unproved properties are excluded from the calculation and are assessed separately for impairment.

The net book value of the Company's petroleum and natural gas properties and facilities is subject to the cost recovery test ("ceiling test"). The Company estimates the future net revenues, using year-end prices, plus the lower of cost and estimated fair value of unproven properties, less future site restoration and abandonment costs, general and administrative expenses, financing costs and income taxes. Any deficiency in the future recoverable costs as compared to the net book value is charged to current operations as part of depletion, depreciation and amortization expense.

Depreciation of administrative assets is provided for on a declining basis at an annual rate of 20% to 30% depending on the asset category.

Future site restoration and abandonment costs

Estimated future site restoration and abandonment costs are provided for on the unit-of-production basis. Costs are estimated each year by management in consultation with the Company's independent petroleum engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion, depreciation and amortization expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Joint venture activities

Substantially all of the Company's exploration, development and production activities are conducted with joint venture partners. These financial statements reflect only the Company's proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method. This method assumes that any proceeds obtained on the exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding during the period is then adjusted by the notionally repurchased shares.

Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). Under the terms of these share issues, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. As the funds are spent a future income tax liability is established, with a corresponding reduction to share capital.

Hedging

The Company periodically enters into forward contracts to reduce its exposure to price fluctuations on a portion of its oil and natural gas production. The contracts are not used for speculative trading purposes. Gains or losses on these contracts are reported as adjustments to commodity revenues in the related production month.

Deferred revenue

Deferred revenue represents the gains on the sale of four compressor facilities (net of related costs), which are subject to sale and leaseback agreements. Two facilities were sold in 1998 and the other two were sold in 1999. The deferred revenue is recognized in income on a declining-balance method consistent with the depletion and depreciation policy utilized for the related compressor facilities under capital lease.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Stock based compensation plan

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. Stock option awards are accounted for based on intrinsic values (Note 7(e). For stock option awards on or after January 1, 2002 the Company calculates and discloses the proforma impact of compensation expense as required by the Canadian Institute of Chartered Accountants ("CICA") 3870 Stock Based Compensation and Other Stock Based Payments. Any consideration paid to the Company on the exercise of stock options is credited to share capital.

3. CORPORATE ACQUISITION

On June 27, 2002 the Company acquired Saddle Resources Inc. at a cash price of $0.52 per share. On the same day the two companies were amalgamated. The allocation of the purchase price, which has been accounted for using the purchase method, was as follows:

	$
Cost of shares acquired	8,989
Transaction costs	444
Total purchase price	9,433
Add: Fair value of liabilities assumed by the Company	
Working capital deficiency	454
Bank debt	8,002
Capital leases	1,485
Total purchase price and liabilities assumed	19,374
Fair value of assets acquired	
Petroleum and natural gas properties and facilities	20,013
Administrative assets	48
Future site restoration and abandonment costs	(630)
Future income taxes	(57)
Total fair value of assets acquired	19,374

4. PETROLEUM AND NATURAL GAS PROPERTIES AND FACILITIES

	Cost $	2003 Accumulated Depletion, Depreciation and Amortization $	Net Book Value $
Canada			
Petroleum and natural gas properties and facilities	99,101	28,318	**70,783**
Administrative assets	183	112	**71**
	99,284	28,430	**70,854**

	Cost $	2002 Accumulated Depletion, Depreciation and Amortization $	Net Book Value $
Canada			
Petroleum and natural gas properties and facilities	73,406	17,042	56,364
Administrative assets	167	88	79
	73,573	17,130	56,443
United States			
Petroleum and natural gas properties and facilities	1,621	1,420	201
	75,194	18,550	56,644

At December 31, 2003 the Company's estimated future site restoration and abandonment liability to be accrued over the life of the remaining proven reserves was $1,140 (2002 - $419).

Undeveloped land costs and salvage values excluded from the depletion calculation and ceiling test as at December 31, 2003 were $11,083 (2002 - $10,032)

Capitalized overhead expense for the year amounted to $184 (2002 - $170).

The Company sold its United States property during the year for a loss of $22. The loss has been included in the depletion, depreciation and amortization charge for the year.

5. BANK DEBT

The Company has a $18,200 demand revolving production loan, of which $13,840 had been drawn at December 31, 2003. The loan bears interest at bank prime rates plus one half of one percent. A fixed and floating charge debenture and a general security agreement over all the assets of the Company have been pledged as security for the loan. Monthly principal reductions on the facility are $900 commencing on March 1, 2004; $750 commencing on May 1, 2004; $600 commencing on May 1, 2005 and the balance remaining is due on May 1, 2006. The next review date for the loan is the earlier of the receipt of an updated reserve report or April 30, 2004.

Interest expense recorded in respect of the bank debt during the year amounted to $717 (2002 - $395).

6. OBLIGATIONS UNDER CAPITAL LEASES

The Company had three capital leases outstanding at the end of the year, which relate to one processing facility and two gathering systems. The aggregate future minimum lease payments required to satisfy the obligations under the capital leases are as follows:

	2003 $	2002 $
Year ending December 31, 2003	–	1,185
2004	312	492
2005	381	426
Total minimum lease payments	693	2,103
Less interest implicit in leases (rates ranging from 8.1% to 19.1%)	59	235
	634	1,868
Less current portion	260	1,031
	374	837

During the year the Company exercised its option to buy out three capital leases. On May 1, 2003 the Company paid $450 to purchase back its processing facilities in Marten Hills pursuant to the termination of a four-year sale and leaseback agreement. On May 7, 2003 the Company paid $299 to buy out two capital leases in respect of a compression facility and a gathering system in Rainbow Lake. Interest expense recorded in respect of the capital leases for the year was $61 (2002 - $188).

7. SHARE CAPITAL

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares		
Unlimited number of first preferred shares		
Unlimited number of second preferred shares		
Issued		
Common shares		
Balance December 31, 2001	16,724,266	16,114
Repurchased and cancelled (Normal Course Issuer Bid)	(44,400)	(46)
Exercise of stock options	10,000	10
Private placement, net of issue costs	1,275,000	2,384
Private placement (flow-through shares), net of issue costs	1,276,595	2,805
Private placement (flow-through shares), net of issue costs	2,110,000	3,717
Adjustment for tax incentives renounced under the flow-through share program net of share issue cost benefits	–	(2,280)
Balance December 31, 2002	21,351,461	22,704
Repurchased and cancelled (Normal Course Issuer Bid)	(141,400)	(134)
Private placement, net of share issue costs	1,600,000	4,825
Exercise of stock options	347,800	302
Exercise of warrants and conversion to common shares	30,000	46
Adjustment for tax incentives renounced under the flow-through share program net of share issue cost benefits	–	(2,627)
Balance December 31, 2003	23,187,861	25,116
Warrants		
Balance December 31, 2001 and December 31, 2002	111,404	–
Exercised and converted to common shares	(30,000)	–
Balance December 31, 2003	81,404	–
Total share capital at December 31, 2003		25,116

a) Warrants

The warrants were issued pursuant to a private placement in 1999. The exercise price for the remaining warrants at the end of 2003 was $1.69 per share. The warrants expire on July 21, 2004. The warrants were assigned no specific value, and as a result, all proceeds from the private placement are recorded in equity.

b) Normal course issuer bid

During the year, the Company purchased and subsequently cancelled 141,400 (2002 – 44,400) of its common shares pursuant to a normal course issuer bid. The aggregate cost of the purchases was $241 (2002 - $72) of which $134 (2002 - $46) was charged to share capital based on the average book value per share as of the date of repurchase, and the balance of $107 (2002 - $26) was charged to retained earnings. The average per share cost of the repurchase was $1.71 (2002 - $1.63).

c) Common share private placements

Effective September 5, 2003 the Company closed a private placement for the issuance of 1,600,000 flow-through common shares at a price of $3.20 per share. The net proceeds of the issuance are comprised of gross proceeds of $5,120 less expenses of the issue of $295.

d) Stock options

The Company has granted to employees and directors stock options for 2,275,675 common shares at $0.84 to $3.05 per share. The options expire at various times between September 7, 2004 and August 15, 2013. Options granted under the plan are generally fully exercisable after four years and expire ten years after the grant date. Options granted under the previous successor plan expire five years after the grant date. At December 31, 2003 the number of shares reserved for issuance under the plan was 2,488,846. The options outstanding were as follows:

	2003		2002	
	Share Options	Weighted Average Exercise Price $	Share Options	Weighted Average Exercise Price $
Outstanding, beginning of year	1,920,000	1.67	1,335,000	1.62
Granted	891,275	2.25	595,000	1.77
Exercised	(347,800)	0.87	(10,000)	1.00
Cancelled	(187,800)	2.10	-	-
Outstanding, end of year	2,275,675	1.99	1,920,000	1.67
Exercisable, end of year	951,000		991,900	

Options Outstanding

	December 31, 2003			December 31, 2002		
Exercise Price Range	Number of Options Outstanding	Weighted Average Exercise Price $	Weighted Average Years Expiry	Number of Options Outstanding	Weighted Average Exercise Price $	Weighted Average Years to Expiry
$0.84 - $1.00	461,500	0.94	0.93	791,500	0.89	1.59
$1.57 – 1.69	564,200	1.66	8.98	395,000	1.65	9.93
$2.01 - $2.50	944,975	2.35	9.11	407,500	2.11	9.02
$3.00 - $3.05	305,000	3.03	7.20	326,000	3.03	8.19
	2,275,675	1.99	7.16	1,920,000	1.67	6.00

7. SHARE CAPITAL (CONTINUED)

e) Stock Based Compensation

The Company accounts for its stock option plan based on intrinsic values at the grant date whereby no compensation costs have been recognized in the financial statements for stock options granted to employees and directors. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the market price at the date of grant. The fair value of each option is estimated on the date of grant using the modified Black-Scholes option-pricing model with the following assumptions: average expected volatility of 42% (2002 – 39%); average risk-free rate of return of 3.94% (2002 – 4.00%); zero dividend rate and an average expected life of five years. During the year, the average fair value of stock option grants was $0.95 (2002 - $0.71). Had compensation expense been determined based on the fair value for awards made after December 31, 2001, the Company's net income and earnings per share would have been adjusted to the pro-forma amounts listed below:

	2003 $	2002 $
Net Earnings:		
As reported	4,486	777
Pro-forma	4,092	737
Net Earnings Per Share:		
Basic:		
As reported	0.20	0.04
Pro-forma	0.19	0.04
Diluted:		
As reported	0.20	0.04
Pro-forma	0.18	0.04

These pro-forma earnings reflect compensation cost amortized over the option's vesting periods.

8. NET EARNINGS PER SHARE

The following table summarizes the shares used in calculating Net Earnings Per Share:

	2003	2002
Weighted average shares outstanding - basic	21,898,709	18,052,650
Effect of stock options and warrants	424,282	500,630
Weighted average shares outstanding - diluted	22,322,991	18,553,280

The number of options and warrants excluded from the calculation of diluted weighted average shares outstanding was 1,799,878 (2002 – 1,522,637) as the inclusion of these shares would have an anti-dilutive effect.

9. INCOME TAXES

The Company has sufficient tax pools available to reduce its taxable income to $Nil in the year. The current income tax provision relates solely to capital taxes. The provision for income tax differs from the amounts that would have resulted from the combined federal and provincial rate had it been applied for the years ended:

	2003 $	2002 $
Earnings before income taxes	5,872	1,270
Expected income tax at the statutory rate of 40.6% (2002 - 42.1%)	2,385	535
Tax effect of non-deductible and non-taxable amounts related to:		
Non-deductible crown payments	1,590	1,041
Resource allowance	(1,757)	(650)
Alberta Royalty Tax Credit	(149)	(204)
Capital tax	97	96
Tax rate adjustments	(713)	(290)
Other	(67)	(35)
	1,386	493

The future income tax liability is comprised of the following:

	2003 $	2002 $
Future Income Tax Assets		
Share issue costs	(394)	(485)
Attributed Canadian Royalty Income	(433)	(112)
	(827)	(597)
Future Income Tax Liabilities		
Current temporary differences from related property and natural gas properties and facilities	3,632	2,233
Flow-through share renunciations	11,079	8,332
	14,711	10,565
	13,884	9,968

10. FINANCIAL INSTRUMENTS

Fair values of financial instruments

The carrying value of financial instruments, which include short-term deposits, accounts receivable, accounts payable and accrued liabilities, bank debt and obligations under capital leases approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties.

Interest rate risk

Obligations under capital leases carry interest at rates which are not significantly different from year-end interest rates. The Company is exposed to interest rate risk due to the fact that the bank debt is based on the floating bank prime.

Credit risk

The majority of the accounts receivable are in respect of oil and gas operations. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any credit loss in the collection of accounts receivable to date.

Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations as crude oil prices received are referenced to U.S. dollar denominated amounts.

10. FINANCIAL INSTRUMENTS (CONTINUED)

Commodity price risk

From time-to-time, the Company enters into oil and natural gas contracts in order to protect its cash flow on future sales from the potential adverse impact of declining prices. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at December 31, 2003, the Company had one guaranteed pricing transaction outstanding. The price of 300 barrels of domestic sweet oil per day was fixed at a price of $25.02 US per barrel for a period of twelve months commencing on January 1, 2004.

11. RELATED PARTY TRANSACTIONS

The Company incurred $84 (2002 - $71) in royalties payable to certain officers, directors and/or shareholders who were related parties during the year. In addition, the Company paid $Nil (2002 – $73) in interest to a Corporation that is controlled by certain officers, directors and/or shareholders in respect of a loan to assist in the corporate acquisition in 2002.

12. COMMITMENTS AND GUARANTEES

In addition to the commitments listed below, the Company has various guarantees and indemnifications in place in the ordinary course of business, none of which, as assessed by Management, are expected to have a significant impact on the Company's financial statements.

a) Flow-through shares

The Company has utilized the look-back provisions of the Income Tax Act with respect to flow-through shares issued in September 2003, whereby it may renounce expenditures before they are incurred. Under these provisions, the Company must spend $4,120 (2002 - $5,692) on Canadian exploration expenses before December 31, 2004. The obligation for the year ended December 31, 2002 was satisfied during the year.

b) Operating leases

The Company has committed to future minimum payments under various operating leases that cover rental of office facilities and a proportionate share of operating costs for each of the next three years as follows:

	2003 $	2002 $
Year ending December 31, 2003	–	547
2004	415	415
2005	361	361
2006	180	180
Total minimum payments	956	1,503

13. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working capital

	2003 $	2002 $
Accounts receivable	(160)	(4,540)
Prepaid expenses and deposits	(46)	9
Accounts payable and accrued liabilities	3,078	4,165
Change in non-cash working capital from investing	(1,988)	1,463
Corporate acquisition of working capital deficiency	–	(454)
	884	643

b) Supplementary cash flow information

	2003 $	2002 $
Interest paid	797	616
Income taxes paid	105	92
Interest received	27	42

14. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year presentation.

15. SUBSEQUENT EVENT

The Company entered into a fixed price contract for the delivery of 7,000 GJ's per day on March 18, 2004. The contract guarantees a price of $6.25 per GJ for the contracted volume and has a term running from April 1, 2004 to October 31, 2004.

IN MEMORY

MARK ALGAR, 1959 - 2003

The staff and management of Devlan Exploration were deeply saddened by the passing of our Vice President of Engineering and friend, Mark Algar last year.

His warm demeanor, friendly personality and wonderful sense of humour will be greatly missed.

Mark's perseverance and dedication have been an integral part of Devlan's success and he, and his contributions, will live on in our memories.

It is with heavy hearts that we carry on with the vision that Mark helped develop for this company.

We offer his friends and family our deepest sympathies.

DIRECTORS & OFFICERS

BOARD OF DIRECTORS

Martin J. Cheyne
Calgary, Alberta
President & Chief Executive Officer
Devlan Exploration Inc.

Gary J. Cochrane, L.L.B.
Calgary, Alberta
Partner, Fraser Milner Casgrain LLP

Stephen H. Freedhoff, CA, CFP
Toronto, Ontario
Independent Businessman

Bradley B. Porter
Okotoks, Alberta
Executive Vice President &
Chief Operating Officer
Devlan Exploration Inc.

Lyle J. Reinhart
Vernon, British Columbia
President, Bowhart Holdings Ltd.

Rick M. Wlodarczak, CA, CBV
Vancouver, British Columbia
President, Nova Bancorp Group

OFFICERS AND KEY PERSONNEL

Martin J. Cheyne
President & Chief Executive Officer

Bradley B. Porter
Executive Vice President & Chief Operating Officer

Gerald N. Gilewicz, CMA
Chief Financial Officer

Kenneth M. Tompson, P.Geol.
Vice President Exploration

HEAD OFFICE

1400, 333 - 5th Avenue SW
Calgary, Alberta T2P 3B6
Telephone (403) 233-7778
Fax (403) 261-3808
Website: www.devlanx.com
Email: admin@devlanx.com

STOCK LISTING

Toronto Stock Exchange
Trading Symbol "DXI"

AUDITORS

Deloitte & Touche LLP
3000, 700 - 2nd Street SW
Calgary, Alberta T2P 0S7

LEGAL COUNSEL

Borden Ladner Gervais LLP
1000 Canterra Tower
400 Third Avenue S.W.
Calgary, Alberta T2P 4H2

BANKERS

Canadian Western Bank
606 - 4th Street SW
Calgary, Alberta T2P 1T1

REGISTRAR AND TRANSFER AGENT

Computershare Investor Service
600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3X2

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GLOSSARY OF TERMS

Crude Oil and Natural Gas Liquids

WTI	West Texas Intermediate
API	America Petroleum Institute
Bbl	one stock tank barrel
Bbls	Barrels
MBbls	one thousands barrels
Bbl/d	barrels per day
boe	barrels of oil equivalent converting 6 Mcf of natural gas to one barrel of oil equivalent and one barrel of natural gas liquids to one barrel of oil equivalent. The factor used to convert natural gas and natural gas liquids to oil equivalent is not based on either energy content or prices but is a commonly used industry benchmark
Mboe	thousands of barrels of oil equivalent
boe/d	barrels of oil equivalent per day
NGL	natural gas liquid
STB	stock tank barrel
MSTB	thousand stock tank barrels

Natural Gas

Mcf	one thousand standard cubic feet
Btu	British thermal units
MMcf	one million standard cubic feet
Bcf	one billion standard cubic feet
Mcf/d	one thousand standard cubic feet per day
MMcf/d	one million standard cubic feet per day
GJ	gigajoules
GJd	gigajoules per day
ARTC	Alberta Royalty Tax Credit

To Convert From	To	Multiply By
Mcf	boe	0.167
Mcf	Cubic metres ("m^3")	28.1743
Cubic metres	Cubic feet ("ft^3")	5.494
Bbls	Cubic metres ("m^3")	0.159
Cubic metres ("m^3")	Bbls oil	6.293
Feet	Metres	0.305
Metres ("m")	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares (Alberta)	Acres	2.47

Note: Sproule Report is the Sproule Associates Limited Evaluation of the P&NG Reserves of Devlan Exploration Inc. as of January 1, 2004.

In this report, reserves and production are referred to on a "gross"and "net" basis. "Gross" refers to total property reserves and production prior to the application of working interests and before deduction of royalties. "Net" refers to the working interest portion of reserves and production before deduction of royalties ("net" is equivalent to gross company interest).

DEVLAN
EXPLORATION INC.

1400, 333 - 5th Avenue SW

Calgary, Alberta, Canada T2P 3B6

Tel: (403) 233-7778

Fax: (403) 261-3808

Email: admin@devlanx.com

WWW.DEVLANX.COM